



New Jersey  
State Health Benefits Program

State Plan

Plan Year 2007 Renewal Recommendations

January 1, 2007 – December 31, 2007

Prepared by Aon Consulting

September 2006

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## **Executive Summary**

The purpose of this report is to review the experience of the medical plans offered to State Active Employees and Retirees by the New Jersey State Health Benefits Program (SHBP) and recommend premium levels to support the plans for Plan Year 2007: January 1, 2007 through December 31, 2007. The experience of the Local Employer Group is addressed in a separate report, as is the experience of the SHBP Dental Plan.

### **Benefit Plans Maintained by the SHBP**

The State of New Jersey operates the SHBP as a multiple-option program for State Active Employees and Retirees, with the following medical plan options (all of which are addressed in this report) available:

- Traditional Plan – A self-insured, integrated hospital/medical-surgical/major medical plan administered by Horizon Blue Cross Blue Shield of New Jersey (Horizon).
- NJ PLUS – A self-insured Point-of-Service (POS) plan administered by Horizon.
- Five HMOs, all of which will be self-insured as of 1/1/07:
  - Aetna
  - AmeriHealth
  - CIGNA
  - Health Net
  - Oxford

- State Active Employees also have a Prescription Drug Plan available under the SHBP, which is administered by Caremark, the Pharmacy Benefit Manager (PBM) used by Horizon.
- Retiree Prescription Drug Plan, administered by the same health plan administrator as the Retiree's medical plan.

### **Recommended Medical Renewal Increases**

Plan Year 2005 medical claims increased at rates 0-5% lower than was assumed in last year's renewal calculations and 0-8% lower than the benchmark values from Aon's trend survey. In addition, there are some benefit changes that impact Plan Year 2007 costs (see page 3). This has led to recommended renewal increases which are lower than industry norms, as reflected below:

	<u>Increase in Plan Costs / Subscriber</u>				
	Benchmark	Assumed	2005	Actual	Recommended
	2005	2005	Plan	2005	2007 Renewal
		Trend	Change		
NJ PLUS	13%	10%	-2%	3%	5%
Traditional	14%	11%	-1%	9%	8%
HMOs	13%	14%	-2%	12%	11%
Ee Rx Card	14%	13%	-13%	-3%	-4%

The table above presents the average recommended renewal increases. Recommended increases split by Active, Early Retiree, and Medicare Retiree, and by specific HMOs are listed in Exhibit 1.

The recommended Plan Year 2007 renewal increases are much lower than the national norms for health insurance. The reasons for this are:

- The Actual Plan Year 2005 claim increases are less than projected at the Plan Year 2006 renewal, so current premium levels are higher than necessary to cover plan costs.
- NJ PLUS and HMO office visit Retiree copays are increasing from \$5 to \$10 which is projected to reduce medical costs 2.5% in Plan Year 2007.

The difference between the assumed cost increases and the actual cost increases can be attributed to several developments:

- Active Employee copay and deductible increases, effective 1/1/2005, helped control utilization and thus impact trends. Savings from the prescription drug benefit changes were greater than originally projected.
- NJ PLUS costs for outpatient surgery decreased from Plan Year 2004 to Plan Year 2005 as a result of the application of Reasonable and Customary limits on surgical centers, and also from increasing the number of outpatient surgical centers in Horizon's network.
- NJ PLUS introduced five new Disease Management programs effective 1/1/2005. These programs appear to have had a significant impact on trends, especially for Retirees who have a higher frequency of the type of catastrophic claims which can benefit from Disease Management.

- Prior to Plan Year 2006, the HMO rate levels were the same for State and Local Employer groups, even though the State experience has higher average claims than Local Employer experience. The Plan Year 2006 HMO renewals were larger for the State than for Local Groups, but the difference was not enough to bring the State HMO rates to a break-even level. The recommended renewal increase for Plan Year 2007 is anticipated to deliver a close to break-even rate.
- Trends have been decreasing over the last couple of years, and for NJ PLUS and the HMOs, the industry norms for trends (as measured by the Aon Trend Survey) have decreased an additional 1% for HMOs, POS, and prescription drugs plans over the past year.
- For Retirees, prescription drug coverage is included with their medical plan. For NJ PLUS and Traditional Plan, the prescription drug out-of-pocket maximum was increased after the rates were finalized, resulting in additional plan savings.
- Horizon/Caremark Prescription Drug rebates have been increasing and the actual Plan Year 2005 rebates were larger than projected.

### **Benefit Changes**

- A. Duplication of coverage under the SHBP will not be permitted in Plan Year 2007.

- B. For Retiree medical benefits, NJ PLUS and HMO physician office visit copays will increase from \$5 to \$10 effective 1/1/2007 (State Employee copays are already \$10).
- C. For Retiree prescription drugs, copays and the out-of-pocket maximum will receive the formula increase. In addition, we are assuming that the Medicare Part D Retiree Drug Subsidy (effective January 1, 2006) will result in savings per Medicare-Eligible member of \$641 in Plan Year 2006 and \$688 in Plan Year 2007.

Since the implementation of Mandatory Generics and Mandatory Mail-Order Service has been deferred, the cost projections and rates shown in this report do not reflect any impact from Mandatory Generics or Mandatory Mail-Order Service.

### **Financial Results**

The SHBP has continued with favorable financial results for Plan Years 2004 and 2005. Aon's current projections for Plan Year 2006 show a loss ratio of 96% for the State Plan, which should result in a projected gain of \$67 million.

The renewal increase for Plan Year 2007 is projected to result in neither loss nor gain for the State Plan.

## **Historical Overview**

### **Benefit Changes**

Active Employee copays and deductibles were increased in Plan Year 2005, and Retiree copays will increase in Plan Year 2007, but the benefit designs are still richer than those of most other employers.

For Retirees enrolled in NJ PLUS and the Traditional Plan, the SHBP has increased the prescription drug copays and out-of-pocket maximums each year based on actual trends from the prior years. For Plan Year 2006, there was an additional increase for the out-of-pocket maximum bringing it to \$1,000. The cost-sharing changes for Plan Year 2007 are:

<b><u>Retail (30 Day Supply)</u></b>	<b><u>2006</u></b>	<b><u>2007</u></b>
Retail Generic Copay	\$8	\$8
Retail Preferred Brand Copay	\$16	\$17
Retail Non-Preferred Brand Copay	\$33	\$34
<b><u>Mail (90 Day Supply)</u></b>		
Mail Generic Copay	\$8	\$8
Mail Preferred Brand Copay	\$25	\$25
Mail Non-Preferred Brand Copay	\$41	\$42
Out-of-Pocket Maximum	\$1,000	\$1,082

Plan Year 2005 copay increases for Active State Employees in NJ PLUS and the HMOs were projected to decrease costs by 2.5%, and appear to have resulted in savings close to that amount.

The Plan Year 2005 deductible increase for Active State Employees in the Traditional Plan appears to have had no impact on claim costs, since the State Traditional Plan increase is 1% greater than the increase for all other groups in the Traditional Plan who had no benefit changes. However, the Traditional deductible plan change helped to mask the continued upward assessment spiral of the State Active Traditional Plan. State Active Employees contribute 25% of the cost of the Traditional Plan, as compared with 5% for HMOs and 0% for NJ PLUS. This has led to decreasing employee enrollment in the Traditional Plan and increasing enrollment in NJ PLUS. The employees who stay in the Traditional Plan have higher average costs than those who leave since employees with health problems are very slow to change benefit plans and provider networks. Therefore, the additional 1% trend for the State Active Employee plan is probably a combination of the 2.5% savings for the deductible increase offset by a 3.5% increase in the average health costs of those who remain in the Traditional Plan.

The Plan Year 2005 Rx copay increases for State Active Employees had a significant impact on Plan Year 2005 claim costs. Projected savings were 8%, but actual savings appear to be closer to 14% based on a comparison of State and Local Rx Card experience: Average costs per State employees decreased 3% from Plan Year 2004 to Plan Year 2005 versus an 11% increase for Local Employer groups who had no change in copays.

The Retiree Rx Plan Year 2006 copay increases were anticipated in the development of Plan Year 2006 premiums. However, the out-of-pocket maximum used in the renewal calculations was \$626, versus the final maximum of \$1,000. This resulted in additional savings for the Retiree Plan, with the Retiree Plan Year 2005 claims increasing at 7% as compared to the assumed rate of 13%.

### **Eligibility Changes**

Effective for the Plan Year 2004, part-time employees were permitted to enroll in NJ PLUS and the Rx card plan. Only about 200 State part-timers and 100 Local part-timers are participating so the experience is not very credible. However, since the combined experience of State and Local part-timers had a loss ratio of 100% for Plan Year 2005, Aon recommends that the current rate load (10-12%) be continued for Plan Year 2007.

### **Enrollment Changes**

Exhibit 2 reflects historical enrollment patterns among the SHBP benefit offerings during Plan Years 2002 through 2006 and includes Aon's projection of Plan Year 2007 enrollment. The projections reflect a decrease in growth for Active Employees and an increase in growth for Retirees. For State Active Employees, the renewal increase for the Traditional Plan (as well as the HMOs) impacts their contributions and thus their plan selection.

Aon's enrollment projections for Plan Year 2007 assume that Active State Employee enrollment will grow 1.2%, with NJ PLUS' share of enrollment increasing 1.3%, and the Traditional and HMO plans' share of enrollment decreasing.

Aon's Retiree enrollment projections for Plan Year 2007 assume that State Retiree enrollment will grow 5%, with Traditional losing 1.8% of its share of enrollment to NJ PLUS and the HMOs.

### **Demographic Changes**

The SHBP Active Employee average age increased 0.3 years from first quarter 2005 to first quarter 2006:

	<b><u>Average Employee Age</u></b>			
	<u>NJ PLUS</u>	<u>Trad</u>	<u>HMOs</u>	<u>Total</u>
1Q 2005	42.5	53.0	44.5	43.9
1Q 2006	42.8	55.3	45.1	44.2
Increase	0.3	2.3	0.6	0.3

Note that Traditional Plan Employees average more than 10 years older than NJ PLUS Employees in Plan Year 2005 and increase to more than 12 years older in Plan Year 2006. This is a result of the declining population in the Traditional Plan and another indicator that it is in an upward assessment spiral. Plan Year 2007 projected premiums for the Traditional Plan are almost double the premiums for NJ PLUS.

The HMO plans average 2 years older than NJ PLUS in Plan Year 2005, and their age increase is double the NJ PLUS increase (0.6 years versus 0.3 years). The HMO plans have a small amount of anti-selection in their enrollment, since employees have to pay 5% of the premium for HMO plans and pay nothing to enroll in NJ PLUS. Plan Year 2007 projected premiums for the HMOs range from 3% to 23% higher than NJ PLUS premiums.

## **Trend Analysis**

Exhibit 3 develops Aon's trend assumptions for Plan Year 2007:

- Page 1 compares the actual increase in SHBP Medical average claims from Plan Year 2004 to Plan Year 2005 with industry norms (based on Aon's Health Care Trend Survey) for the same time period. SHBP claims per subscriber (for groups with no benefit changes) increased 9% from Plan Year 2004 to Plan Year 2005, 4% lower than the industry norms,
- Page 2 compares the actual increase in SHBP Prescription Drug average claims from Plan Year 2004 to Plan Year 2005 with industry norms (based on Aon's Trend Survey) for the same time period. SHBP claims per subscriber (for groups with no benefit changes) increased 9% from Plan Year 2004 to Plan Year 2005, 5% lower than the industry norms,
- Page 3 compares Aon's recommended trend assumptions with historical SHBP trend assumptions. The largest change is in the Medicare Retiree Prescription Drug trend assumptions which are about 3% lower than last year's renewal assumptions. This reflects the favorable SHBP Rx actual claim increases, declining trends in general, and the impact of several high frequency drugs moving from brand to generic.

For the purpose of the SHBP experience trends, the experience of State Actives was separated from the experience of all other groups, since State

Actives had benefit changes effective in Plan Year 2005 and other groups did not. Note that "All Other" in Exhibit 3 combines the experience of State Retirees, Local Employer Retirees, and Local Employer Active Employees. Thus, "All Other" increases reflect SHBP trends, and State Active increases reflect the combined effect of SHBP trend, benefit changes, and anti-selection (which impacts the Traditional Plan).

SHBP Plan Year 2005 medical trends are 3-5% lower than industry norms, and Rx trends are 5% lower. For Plan Year 2007, we assumed that trends would continue to be lower than industry norms, but decreased the differential to about 2%. In setting these trend rates, we reviewed historical experience as well as the recommendations of the SHBP vendors.

Exhibit 3 also develops a Selection Load for the State Active Traditional Plan. State Active enrollment in the Traditional Plan has been decreasing about 15% per year, and this has had a negative impact on the experience of the group. The employees who stay in the Traditional Plan have higher average costs than those who leave since employees with health problems are very slow to change benefit plans and provider networks. In Plan Year 2005, the impact of this selection appears to be about 3.5%, based on a comparison of State Active trends and benefit changes with the trends for "All Other". For Plan Year 2007, we are assuming that the Selection Load will continue at 3.5%.

## **Financial Projections**

### **Aggregate Financial Projections**

Using the assumptions detailed in Exhibit 7 and the methodology described in Section 4 (Rate Renewal Development), we estimated costs below for Plan Years 2005, 2006 and 2007. The Plan Year 2005 and 2006 results show that premiums for all benefit plans, except HMOs, exceed the actual costs, with total projected gains of \$47 million for Plan Year 2005 and \$67 million for Plan Year 2006. This favorable experience is reflected in the Plan Year 2007 recommended renewal increases, which are lower than trend for most plans/groups. The Plan Year 2007 projected results show that no gain or loss is expected, since the premiums are calculated with no margin.

#### SHBP Plan Year Projected Financial Results

(in \$ millions)

	NJ PLUS	Trad Plan	HMOs	Rx Plan	Total
<b>Plan Year 2005</b>					
Premium Rates x Enrollment	\$590	\$246	\$246	\$251	\$1,333
Incurred Claims	\$534	\$230	\$234	\$222	\$1,220
Administrative Charges	\$30	\$13	\$23	\$0	\$66
Net Gain (Loss)	\$26	\$3	(\$11)	\$29	\$47
<b>Plan Year 2006</b>					
Premium Rates x Enrollment	\$677	\$248	\$282	\$286	\$1,493
Incurred Claims	\$623	\$226	\$263	\$246	\$1,358
Administrative Charges	\$32	\$13	\$23	\$0	\$68
Net Gain (Loss)	\$22	\$9	(\$4)	\$40	\$67
<b>Plan Year 2007</b>					
Premium Rates x Enrollment	\$743	\$259	\$318	\$277	\$1,597
Incurred Claims	\$708	\$247	\$295	\$277	\$1,527
Administrative Charges	\$35	\$12	\$23	\$0	\$70
Net Gain (Loss)	\$0	\$0	\$0	\$0	\$0

### **Administrative Fees**

The average change for administrative fees from Plan Year 2006 to Plan Year 2007 is a 2% decrease. This reflects decreases from Horizon for the administration of NJ PLUS and the Traditional Plan, and no change in fees for three of the five HMOs. Horizon's ASO fee reductions result in a savings of approximately \$1.3 million for the State and Local Employer Groups combined for Plan Year 2007. Oxford's renewal originally called for a 5% increase in ASO fee. However, they ultimately agreed to a 1% decrease, resulting in an estimated Plan Year 2007 savings for the State and Local Employer Groups combined of \$219,000.

For Plan Year 2007, the ASO fees per subscriber per month are:

	<b>NJ PLUS</b>	<b>Trad</b>	<b>Aetna</b>	<b>CIGNA</b>	<b>Oxford</b>	<b>Ameri-Health</b>	<b>Health Net</b>
PY2007	\$26.58	\$38.50	\$52.95	\$50.15	\$47.48	\$45.10	\$51.03
PY2006	\$27.58	\$39.50	\$52.95	\$50.15	\$48.00	\$42.95	\$51.03
Increase	-3.6%	-2.5%	0.0%	0.0%	-1.1%	5.0%	0.0%

The higher fees charged by the HMOs are typical of more heavily-managed plans, and more intensive claim management helps to contain claim costs. Also, NJ PLUS fees for Disease Management and Mental Health/Substance Abuse are included in the claims and capitation, while the HMO vendors include these charges in the administrative fees. The table below compares monthly costs per employee across all vendors. The medical claim costs in this table are the average cost for all active employees, both State and Local Employer. Note that when both claims and administrative charges are combined, NJ PLUS and Aetna HMO have

the same cost levels, the Traditional plan costs 59% more, and the other HMOs range from 7-19% more:

**Plan Year 2007 Costs per Active Employee Per Month**

	<b>NJ PLUS</b>	<b>Trad</b>	<b>Aetna</b>	<b>CIGNA</b>	<b>Oxford</b>	<b>Ameri-Health</b>	<b>Health Net</b>
Salaries+Overhead	\$7.61	\$8.18	\$14.54	\$15.71	\$16.86	\$16.77	\$14.05
Claim Admin	\$12.60	\$13.54	\$25.16	\$17.06	\$15.57	\$12.92	\$20.90
Network Fees	\$2.95	\$10.00	\$4.50	\$5.50	\$5.30	\$8.00*	\$4.07
Disease Mgmt	\$2.98	N/A	\$4.06	\$5.38	\$5.30	\$3.80	\$4.21
Claim Mgmt	\$3.37	\$ 4.68	\$3.36	\$6.50	\$1.17	\$8.11	\$6.01
MH/SA**	\$5.21	N/A	\$1.33				
Profit	\$0	\$2.10			\$3.28	\$3.50	\$1.79
Total Fees	\$34.72	\$38.50	\$52.95	\$50.15	\$47.48	\$53.10	\$51.03
Med Clm/Ee	\$615	\$993	\$597	\$703	\$645	\$712	\$690
Total Cost	\$649	\$1,032	\$650	\$753	\$692	\$765	\$741
Ratio to NJ PLUS	1.00	1.59	1.00	1.16	1.07	1.19	1.14

\*Note that AmeriHealth currently credits the SHBP their plan-wide discounts on claims. In order to receive actual discounts, AmeriHealth adds an \$8 per employee per month network fee. Currently, AmeriHealth applies plan-wide discounts for the SHBP and does not charge the \$8.00 network fee. The recommended renewal increase assumes plan-wide discounts and that no network fee will apply in Plan Year 2007. AmeriHealth has not been able to provide the SHBP with a repricing of claims using actual discounts versus plan-wide discounts, so that it can be determined which pricing protocol would be more advantageous to the SHBP. We recommend that this discount comparison be a requirement for AmeriHealth's renewal in Plan Year 2008.

\*\* AmeriHealth's MH/SA fees are included in capitation, which is a claims charge. Several other vendors use the same approach.

**Mental Health /Substance Abuse**

Mental Health/Substance Abuse (MH/SA) is capitated under some of the SHBP vendors and self-insured under others; several vendors are changing the funding arrangements:

- NJ PLUS capitation charges have exceeded actual claim experience for several years. For Plan Year 2006, Horizon/Magellan agreed to a risk-share arrangement which shares the savings with the SHBP if actual claims are lower than the capitation (\$26.99 PMPM), but does not charge the SHBP if claims exceed the capitation. For Plan Year 2007, Horizon is increasing the MH/SA capitation 3.4%. They are willing to continue the risk share arrangement, but only if the SHBP agrees to share the risk in both directions. Renewal rates were calculated assuming that the SHBP discontinue the risk share for Plan Year 2007, but continue to work with Horizon/Magellan to monitor and control some of the excessive charges that have occurred for outpatient out-of-area services.
- Aetna changed from capitation to discounted fee for service effective 1/1/2006.
- CIGNA has proposed moving from capitation to discounted fee for service for Plan Year 2007, and Aon recommends that the SHBP make this change. It reduces the required renewal increase 1.7%, and should save the SHBP about \$2 million. The Plan Year 2007 CIGNA recommended renewal increase assumes that this change will be approved.

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## **Rate Renewal Development**

### **Rating Methodology**

Exhibit 4 shows the development of the projected costs for Plan Year 2007 and the required renewal increases, separately for NJ PLUS, the Traditional Plan, and prescription drugs. Costs were projected separately for medical claims, Rx claims, administrative costs, and aggregate premiums. The projection assumptions are listed in Exhibit 7.

### **Medical Claim Projection**

- 1) Using claim data supplied by the vendors, Aon estimated completed incurred claims for Plan Year 2005 separately for each vendor, benefit plan, and each Employee/Retiree group.

Incurred claims were adjusted for the impact of large claims. In Plan Year 2005, 0.2% of SHBP members had claims in excess of \$100,000, but the cost of these large claims accounted for 15% of total medical claims. Claim amounts in excess of \$100,000 (i.e., catastrophic or shock claims) were subtracted from the aggregate claims, and pooling charges were allocated across plans. By implementing a pooling charge, we ensure that one claim does not distort the renewal for a specific plan, but that there will be sufficient dollars to cover all incurred claims. Exhibit 5 shows the impact of shock claim pooling on each benefit plan.

- 2) Capitation and the New York/Massachusetts hospital assessment charges were added to the adjusted incurred claims to arrive at Plan Year 2005 projected incurred claims.

- 3) Aggregate Plan Year 2005 incurred claims were divided by Plan Year 2005 average covered subscribers to get average claims per subscriber. To get average subscribers, we used historical billing enrollment data. Before using employee counts as our cost basis, we reviewed historical enrollment patterns to see if there has been a change in the percentage of single versus family employees that might distort this analysis. We found that this percentage has changed by less than 1% over the past two years.
- 4) Claims per Subscriber were projected from Plan Year 2005 to Plan Year 2007, using the trends listed in Exhibit 3.
- 5) Plan Year 2006 projected claim costs were adjusted for the following:
  - NJ PLUS claims were increased 2.5% based on the experience of first quarter 2006.
  - CIGNA claims were increased 2.5% based on the experience of first quarter 2006.
  - Oxford claims were increased 7.4% as a result of reconciling Oxford's renewal exhibit with Oxford submitted claim data.
- 6) Aggregate Plan Year 2007 claims are the product of the projected enrollment and the projected Plan Year 2007 claims per subscriber.

### **Prescription Drug Claim Projection**

- 1) Since prescription drugs have less than one month of claim lag, we were able to use actual incurred prescription drug claims for Plan Year 2005.
- 2) Prescription drug claims were adjusted for projected manufacturers' rebates. The table below shows the percentage of manufacturer's rebates which are credited to the SHBP by each vendor as well as the impact the credited rebates have on prescription drug claims.

	<u>% Rebates to SHBP</u>	<u>Rebates/ Rx Claims</u>
Horizon	82%*	5.2%
Aetna	70%	6.7%
CIGNA	100%	4.3%
Oxford	80%	3.3%
AmeriHealth	100%	4.0%
Health Net	100%	2.0%**

\* This is the net result of 95% rebate reduced by \$0.65 per claim administrative fee.

\*\* Aon estimate.

- 3) Aggregate Plan Year 2005 prescription drug claims were divided by Plan Year 2005 average enrollment to get average claims per subscriber.
- 4) Average claims per subscriber were projected from Plan Year 2005 to Plan Year 2007 using the trends listed in Exhibit 3.

- 5) Plan Year 2006 projected claim costs were adjusted for the following:
  - CIGNA claims were increased 7.5% based on the experience of first quarter 2006.
- 6) Aggregate Plan Year 2007 claims are the product of the projected Plan Year 2007 average enrollment and the projected Plan Year 2007 claims per subscriber.

### **Administrative Cost Projection**

The administrative cost projection includes the vendors' administrative charges, as well as some miscellaneous cost items:

- 1) Administrative fees charged by each vendor for each Plan Year are multiplied by the average enrollment for that vendor in each Plan Year.
- 2) Plan Year 2005 overhead charges are the SHBP administrative costs charged against the plans. For Plan Year 2005, it reflects the State charges of \$3.7 million. This is allocated across different benefit plans and different Employee/Retiree groups based on number of subscribers.
- 3) Overhead charges for Plan Years 2006 and 2007 are the Plan Year 2005 charges per subscriber, trended at 3% per year.

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**Projected Premiums**

- 1) Projected enrollment was applied to the actual premium tables for Plan Years 2005 and 2006 to develop the anticipated gain or loss in each of those years.
- 2) Plan Year 2007 projected enrollment was applied to Plan Year 2006 premiums. These aggregate premiums were compared to Plan Year 2007 projected costs to calculate the projected required premium increase for Plan Year 2007.

**Coverage of Adult Children Under Age 30**

Effective 1/1/2007, adult children under age 30 may enroll with the SHBP for medical and prescription drug coverage. The premium for this coverage is the Active Employee rate increased 10%, as detailed later in Exhibit 7.

**Required Premium Increase**

- 1) Plan Year 2007 aggregate costs were calculated by summing projected costs for medical claims, prescription drug claims, and administrative charges.
- 2) The ratio of Plan Year 2007 aggregate costs to Plan Year 2006 premiums applied to projected Plan Year 2007 enrollment is the measure of how much of an increase is required. A ratio of 1.00 means that no increase is required. The amount in excess of 1.00 is the percent increase required to break even in Plan Year 2007.

- 3) For NJ PLUS, the required increase was calculated separately for Active Employees, Early Retirees, and Medicare Retirees.
- 4) For the Traditional Plan, the required increase was calculated separately for Active Employees, Early Retirees, and Medicare Retirees.
- 5) For Aetna, the required increase was calculated for Active Employees and Early Retirees combined (as has been done previously), and then separately for Medicare Retirees.
- 6) For the other HMOs, the preliminary renewal increases were calculated separately for Active Employees and Early Retirees combined (as has been done previously), then separately for Medicare Retirees. Since Medicare Retiree enrollment in HMOs is small, the experience is only partially credible. So, the recommended HMO renewal increases for Medicare Retirees is a blend of Medicare and total HMO experience. The recommended HMO renewal increases for Actives and Early Retirees were calculated so that the total premiums (including Medicare Retirees) will equal total projected costs for each HMO.

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### **Plan Year 2007 Premium Rates**

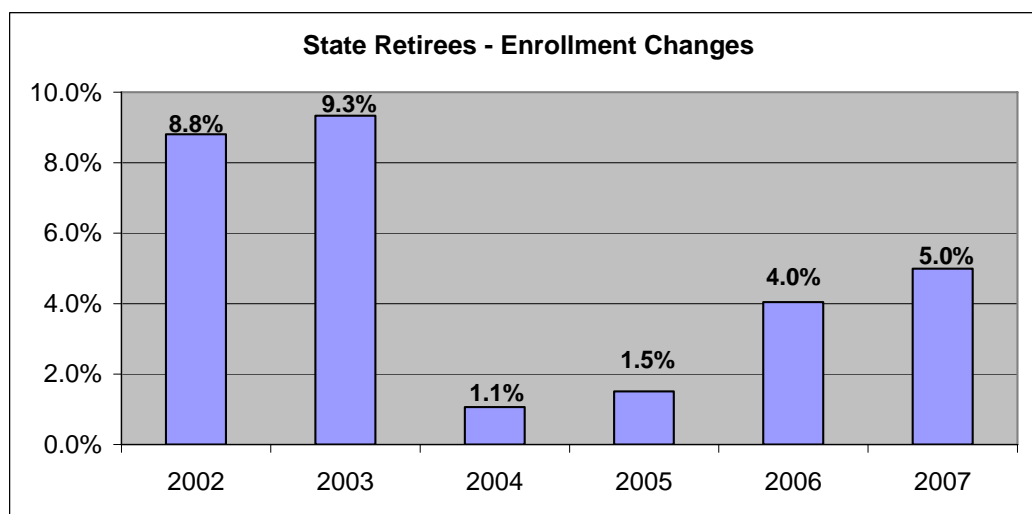
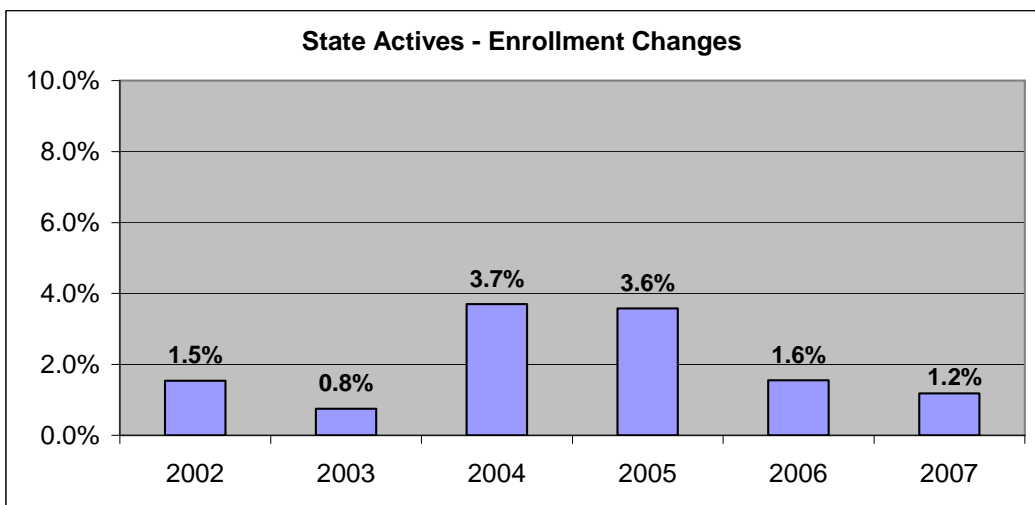
Exhibit 6 contains the premium tables for the Plan Year 2007 renewal. The premiums were calculated by applying the percentages in Exhibit 1 to the Plan Year 2006 premium tables.

## SHBP Plan Year 2007 Renewal

### Exhibit 1 - Recommended State Plan Renewal Increases

	Actives	Early Retirees	Medicare Retirees	Average Retiree	Actives and Retirees
Average All Plans	6.4%	-0.2%	1.7%	0.7%	5.1%
NJ PLUS	7.6%	-6.7%	-0.2%	-4.7%	5.5%
Traditional	21.6%	0.2%	1.9%	1.2%	7.6%
Rx Card	-4.2%	n/a	n/a	n/a	-4.2%
Average HMO	12.0%	12.6%	4.1%	9.5%	11.5%
Aetna	13.8%	13.8%	4.6%	10.3%	13.0%
CIGNA	11.5%	11.5%	0.0%	8.1%	10.4%
Oxford	4.5%	4.5%	15.0%	9.6%	5.1%
AmeriHealth	11.1%	11.1%	0.0%	6.8%	10.3%
Health Net	5.5%	5.5%	0.0%	3.5%	5.2%

**SHBP Plan Year 2007 Renewal**  
**Exhibit 2 - Enrollment Projections**

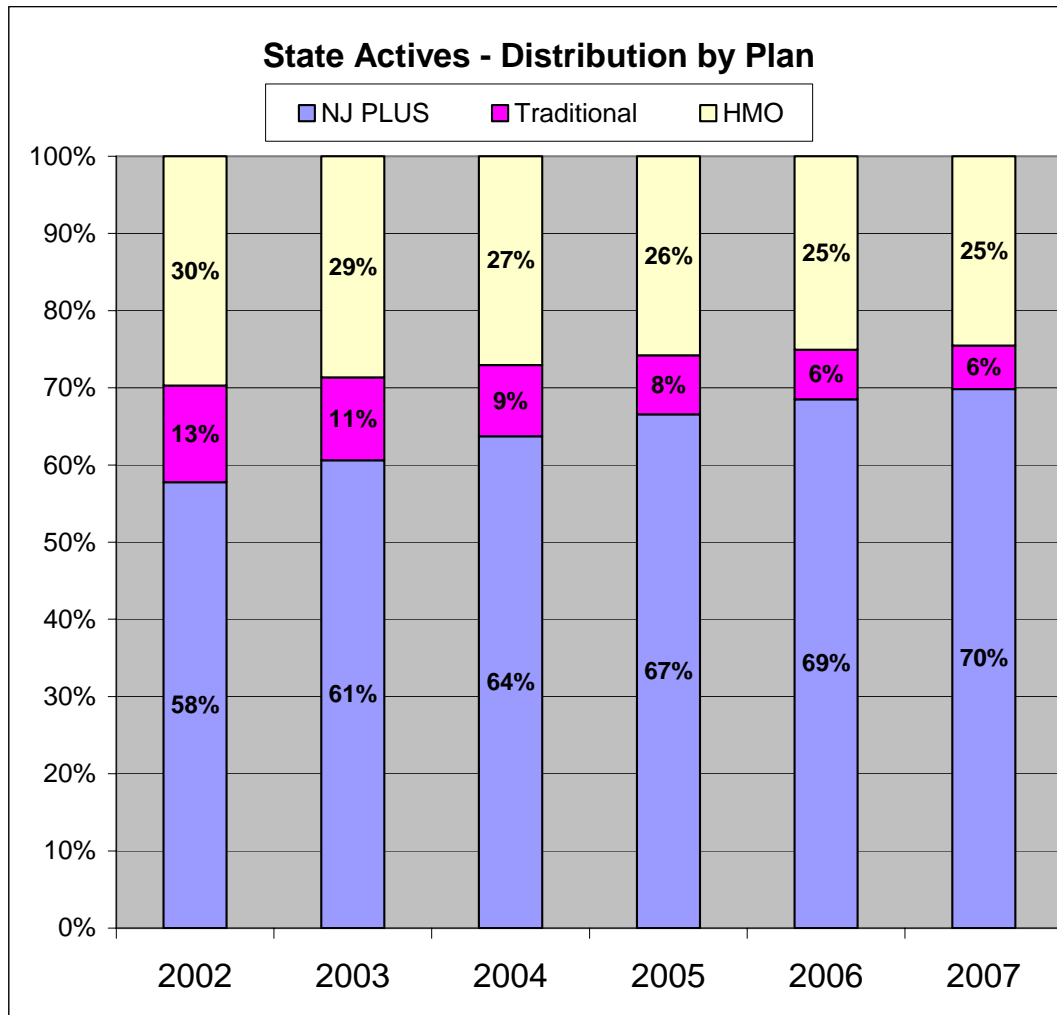


**Observations** (1) Total Active enrollment increased 1.6% in Plan Year 2006, down from almost 4% in the two prior years.  
 (2) Total Retiree enrollment has increased 1-2% for the last three years (Plan Years 2004 - 2006).

**Assumptions for Plan Year 2007 Covered Enrollment Change**

Actives	1.2%
Retirees	5.0%

**SHBP Plan Year 2007 Renewal**  
**Exhibit 2 - Enrollment Projections**

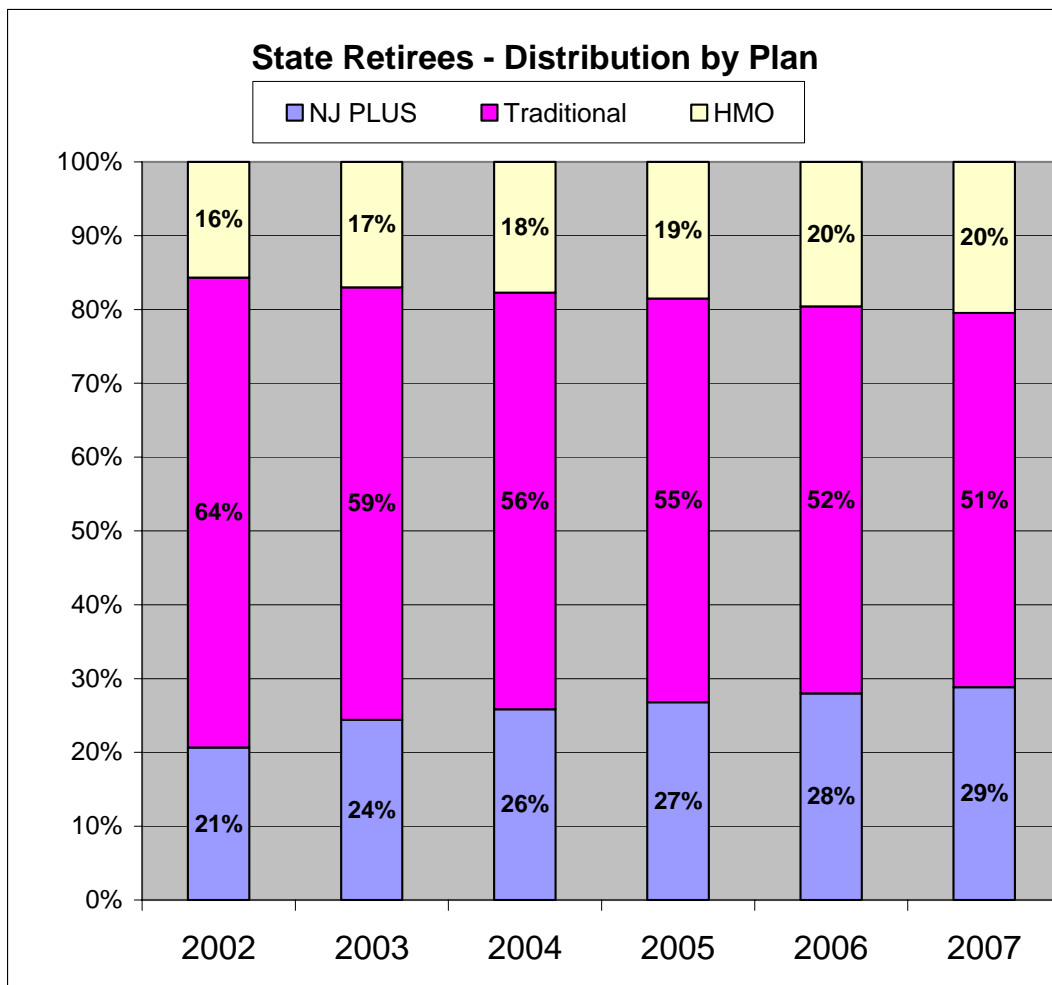


**Observation:** (1) NJ PLUS increases its share of covered employees about 2% per year.  
 (2) The Traditional Plan and the HMOs are each losing about 1% of enrollment share per year.

**Assumptions for Plan Year 2007 Covered Enrollment Change**

NJ PLUS	1.3%
Traditional	-0.7%
HMOs	-0.6%

**SHBP Plan Year 2007 Renewal**  
**Exhibit 2 - Enrollment Projections**



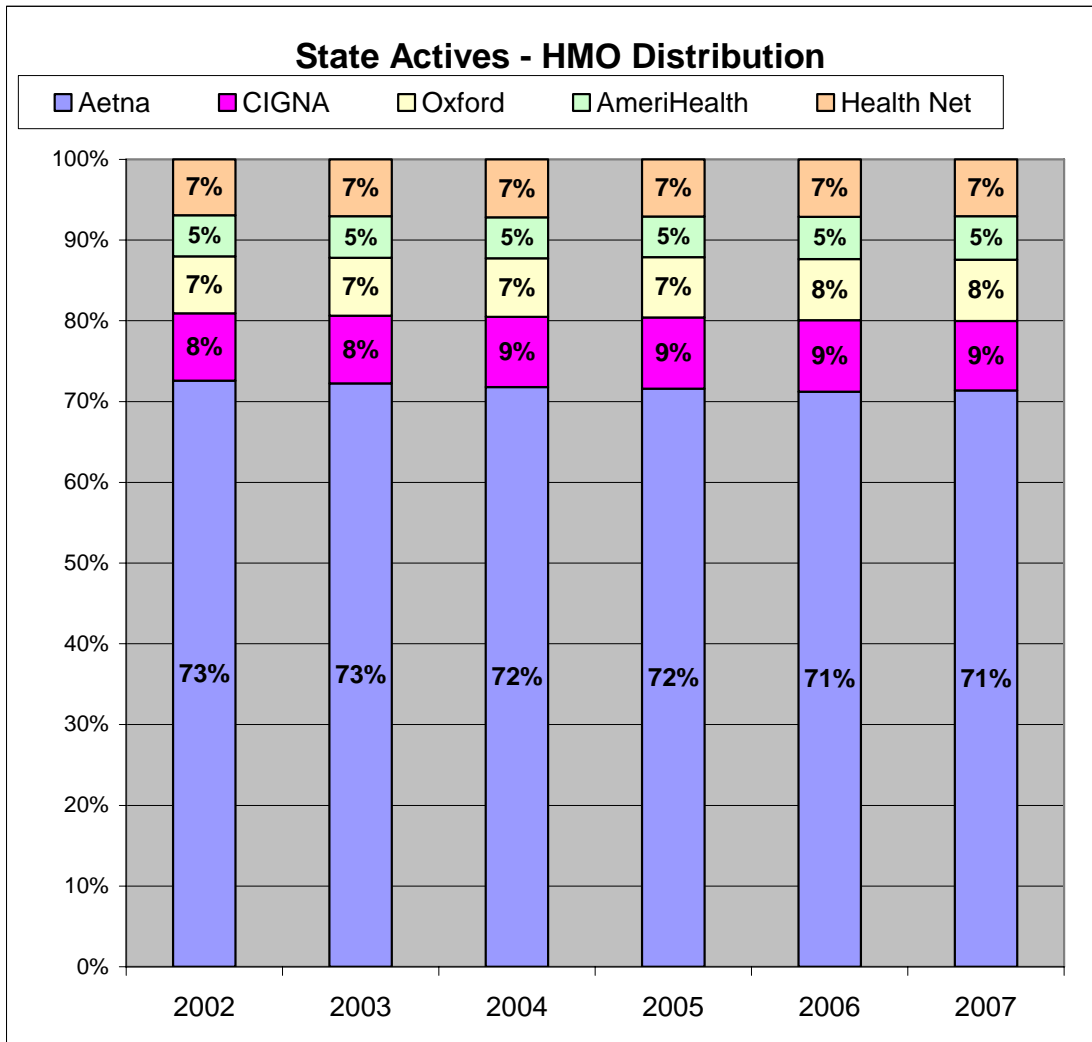
**Observation:** (1) NJ PLUS and HMOs each increase their share of enrollment about 1% per year.  
 (2) The Traditional Plan is losing about 2% of its share of enrollment per year.

**Assumptions for Plan Year 2007 Enrollment Distribution**

NJ PLUS	0.9%
Traditional	-1.8%
HMOs	0.9%

## SHBP Plan Year 2007 Renewal

### Exhibit 2 - Enrollment Projections

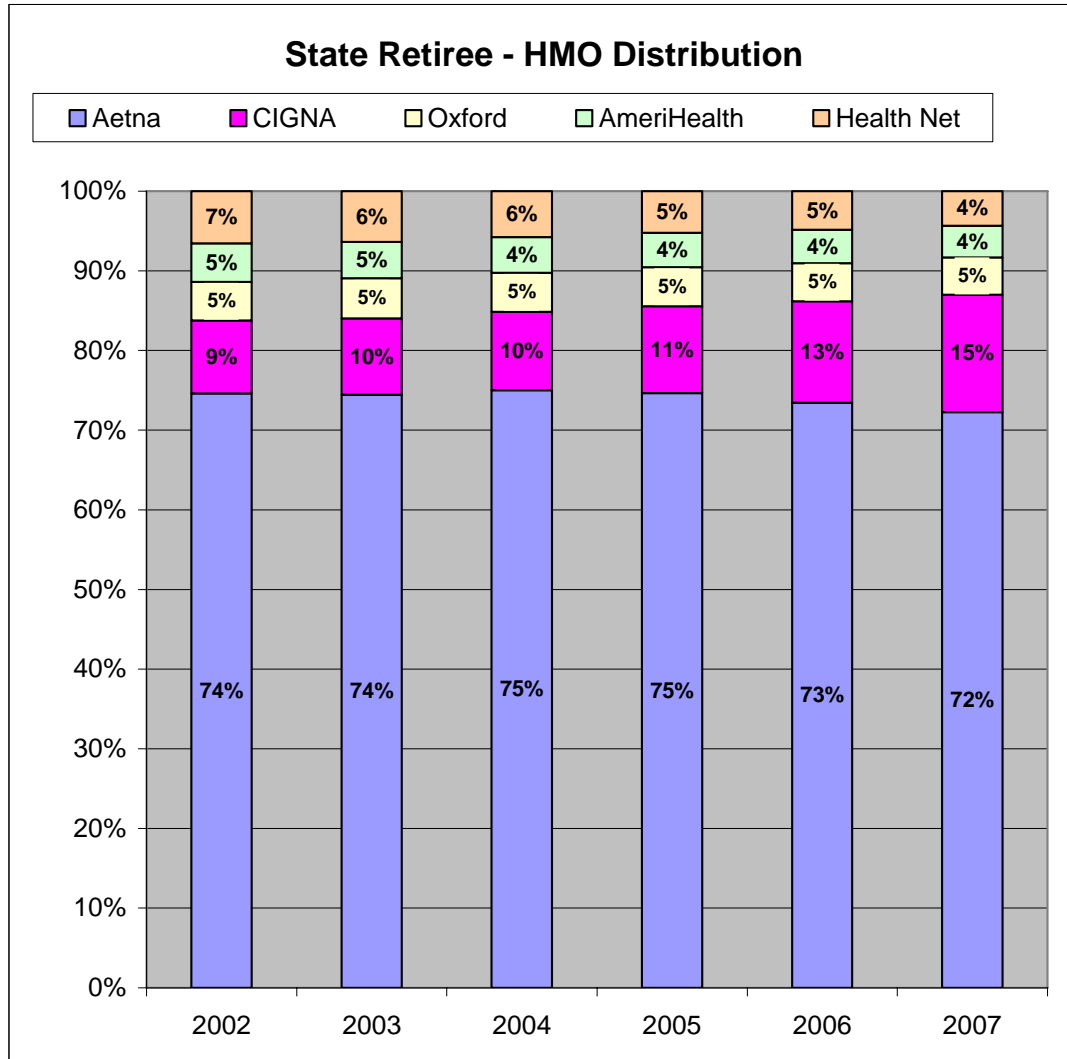


**Observation:** Distribution among the HMO plans shows minimal changes from one year to the next.

#### Assumptions for Plan Year 2007 Enrollment Distribution by HMO

No Change

**SHBP Plan Year 2007 Renewal**  
**Exhibit 2 - Enrollment Projections**

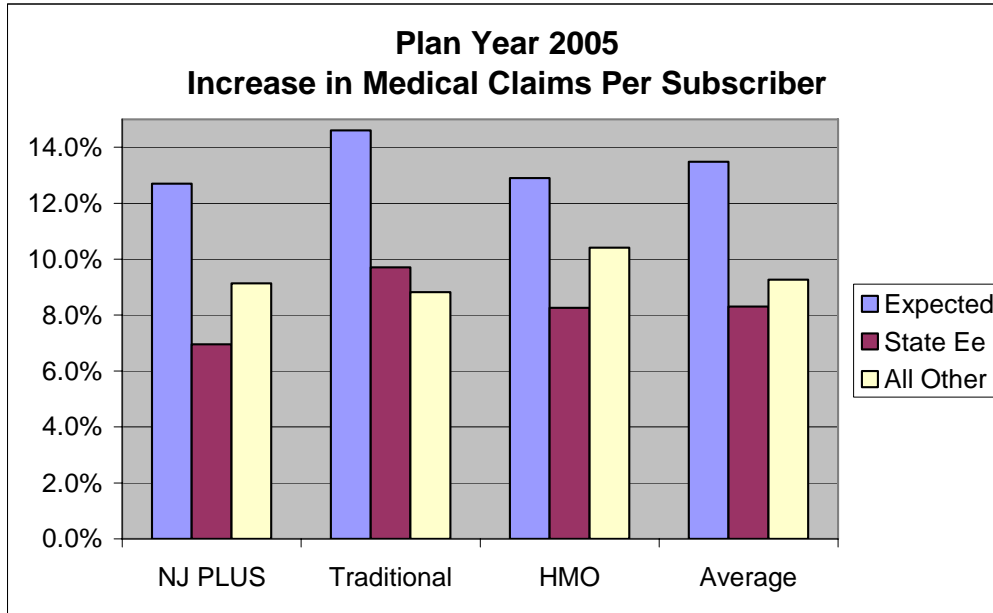


**Observation:** Aetna is losing about 1% per year to CIGNA; there is minimal change for the other HMOs.

**Assumptions for Plan Year 2007 Enrollment Distribution by HMO**

Aetna	-1%	AmeriHealth	0%
CIGNA	2%	Health Net	0%
Oxford	0%		

**SHBP Plan Year 2007 Renewal**  
**Exhibit 3 - SHBP Trend Analysis**



**Expected** increases are based on the Spring 2005 Aon Trend Survey.

**State Ee** increases are shown separately since this group had increases in their copays and deductibles in Plan Year 2005 which were projected to decrease costs 2.5%.

**All Other** increases reflect the combined experience of Local Employer Employees and all Retirees, since these groups had no change in plan design between Plan Years 2004 and 2005.

**Observations:**

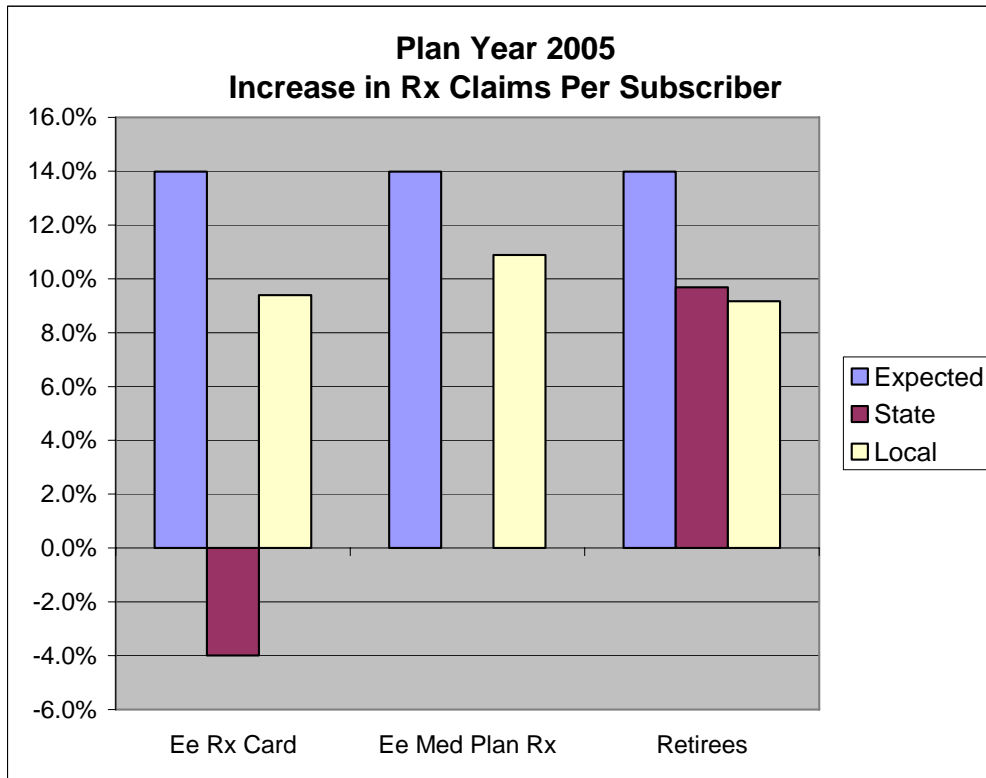
- (1) The differential between State Ee and All Other for NJ PLUS and HMOs is very close to the 2.5% expected savings due to benefit changes. The Traditional differential does not reflect any savings due to benefit changes.
- (2) All Other increases average 4% lower than Expected, with Traditional showing the largest differential from Expected and HMOs showing the smallest.

**Assumptions:**

- (1) SHBP trend assumptions will be lower than the industry norms.
- (2) State Employee increases for Traditional Plan will continue to be loaded for expected antiselection.
- (3) Traditional and HMO trend assumptions will be 1.5% higher than the NJ PLUS assumption.

## SHBP Plan Year 2007 Renewal

## Exhibit 3 - SHBP Trend Analysis



**Observations:**

- (1) Rx Card trends for Local Actives are 14% higher than Rx Card trends for State Actives who had an increase in their copays effective 1/1/05.
- (2) Trend for Rx covered under the medical plan is about 1.5% higher than Rx Card trend.
- (3) Retiree Rx trends are about the same as Local Employer trends, even though the Retirees had an increase in copays and OOP, which should have reduced trends about 3%.

**Assumptions**

- (1) Rx Card trends will be lower than the Aon Survey.
- (2) Retiree Rx trends will be 3% higher than Employee Rx before benefit adjustments, 1% higher after benefit adjustments (2007 copay/OOP increases are smaller than 2006 increases).
- (3) Rx paid under the medical plan will be 1.5% higher than Rx Card trend.

**SHBP Plan Year 2007 Renewal**  
**Exhibit 3 - SHBP Trend Analysis**  
**Comparison of Plan Year 2007 Renewal Trend with Prior Years**

	NJSHBP Renewal Trends				Trend Change		
	2007	2006	2005	2004	2007	2006	2005
<b>NJ PLUS</b>							
<b>Medical Trends</b>							
Active	9.5%	10.1%	11.0%	11.0%	-0.6%	-0.9%	0.0%
Early Retirees	9.5%	10.1%	11.0%	11.0%	-0.6%	-0.9%	0.0%
Medicare Retirees	9.5%	10.1%	11.0%	11.0%	-0.6%	-0.9%	0.0%
<b>Prescription Drug Trends</b>							
Active	11.3%	13.3%	16.0%	17.0%	-2.0%	-2.7%	-1.0%
Early Retirees	12.0%	11.0%	22.0%	25.0%	1.0%	-11.0%	-3.0%
Medicare Retirees	12.0%	14.7%	22.0%	25.0%	-2.7%	-7.3%	-3.0%
<b>Blended Trends</b>							
Active	10.0%	10.9%	12.3%	12.5%	-0.9%	-1.4%	-0.3%
Early Retirees	10.1%	10.3%	13.8%	14.5%	-0.2%	-3.4%	-0.8%
Medicare Retirees	10.8%	12.4%	16.5%	18.0%	-1.6%	-4.1%	-1.5%
<b>Traditional</b>							
<b>Medical Trends</b>							
Active	11.0%	10.6%	10.0%	10.0%	0.4%	0.6%	0.0%
Early Retirees	11.0%	10.6%	10.0%	10.0%	0.4%	0.6%	0.0%
Medicare Retirees	11.0%	10.6%	10.0%	10.0%	0.4%	0.6%	0.0%
<b>Prescription Drug Trends</b>							
Active	11.3%	13.3%	16.0%	17.0%	-2.0%	-2.7%	-1.0%
Early Retirees	12.0%	11.0%	22.0%	25.0%	1.0%	-11.0%	-3.0%
Medicare Retirees	12.0%	14.7%	22.0%	25.0%	-2.7%	-7.3%	-3.0%
<b>Blended Trends</b>							
Active	11.1%	11.3%	11.5%	11.8%	-0.2%	-0.2%	-0.3%
Early Retirees	11.3%	10.7%	13.0%	13.8%	0.5%	-2.3%	-0.8%
Medicare Retirees	11.5%	12.6%	16.0%	17.5%	-1.1%	-3.4%	-1.5%
<b>HMO</b>							
<b>Medical Trends</b>							
Active	11.0%	13.3%	11.0%	13.0%	-2.3%	2.3%	-2.0%
Early Retirees	11.0%	13.3%	11.0%	13.0%	-2.3%	2.3%	-2.0%
Medicare Retirees	11.0%	13.3%	11.0%	13.0%	-2.3%	2.3%	-2.0%
<b>Prescription Drug Trends</b>							
Active	11.3%	15.3%	18.0%	21.0%	-4.0%	-2.7%	-3.0%
Early Retirees	12.0%	13.0%	18.0%	21.0%	-1.0%	-5.0%	-3.0%
Medicare Retirees	12.0%	16.6%	20.0%	25.0%	-4.6%	-3.4%	-5.0%
<b>Blended Trends</b>							
Active	11.1%	13.8%	12.8%	15.0%	-2.8%	1.1%	-2.3%
Early Retirees	11.3%	13.2%	12.8%	15.0%	-2.0%	0.5%	-2.3%
Medicare Retirees	11.5%	15.0%	15.5%	19.0%	-3.5%	-0.5%	-3.5%

## SHBP Plan Year 2007 Renewal

### Exhibit 4 - Renewal Rate Development

#### State Actives

	Total	NJ PLUS	Traditional	Rx Plan*
<b>Average Medical Subscribers</b>				
CY2005		75,726	8,714	113,803
CY2006		79,183	7,405	115,571
CY2007		81,666	6,618	116,939
<b>Incurred Medical claims</b>				
CY2005	\$ 539,000,000	\$ 449,900,000	\$ 89,100,000	
CY2006	\$ 613,800,000	\$ 526,800,000	\$ 87,000,000	
CY2007	\$ 684,200,000	\$ 594,900,000	\$ 89,300,000	
<b>Incurred Prescription Drug Claims</b>				
CY2005	\$ 222,100,000			\$ 222,100,000
CY2006	\$ 246,100,000			\$ 246,100,000
CY2007	\$ 277,000,000			\$ 277,000,000
<b>Administrative Fees</b>				
CY2005	\$ 31,100,000	\$ 26,900,000	\$ 4,200,000	
CY2006	\$ 31,900,000	\$ 28,200,000	\$ 3,700,000	
CY2007	\$ 34,200,000	\$ 31,000,000	\$ 3,200,000	
<b>Total Cost = Medical Claims + Prescription Drug Claims + Fees</b>				
CY2005	\$ 792,200,000	\$ 476,800,000	\$ 93,300,000	\$ 222,100,000
CY2006	\$ 891,800,000	\$ 555,000,000	\$ 90,700,000	\$ 246,100,000
CY2007	\$ 995,400,000	\$ 625,900,000	\$ 92,500,000	\$ 277,000,000
<b>Total Premium</b>				
CY2005	\$ 830,700,000	\$ 494,300,000	\$ 85,300,000	\$ 251,100,000
CY2006	\$ 934,800,000	\$ 563,900,000	\$ 85,100,000	\$ 285,800,000
CY2007	\$ 995,400,000	\$ 625,900,000	\$ 92,500,000	\$ 277,000,000
<b>Gain (Loss)</b>				
CY2005	\$ 38,500,000	\$ 17,500,000	\$ (8,000,000)	\$ 29,000,000
CY2006	\$ 43,000,000	\$ 8,900,000	\$ (5,600,000)	\$ 39,700,000
CY2007	\$ -	\$ -	\$ -	\$ -
<b>2007 Renewal Increase</b>	<b>5.3%</b>	<b>7.6%</b>	<b>21.6%</b>	<b>-4.2%</b>

\*Includes Active Employees from NJ PLUS, Traditional, and HMOs enrolled in the Prescription Drug Plan.

**SHBP Plan Year 2007 Renewal**  
**Exhibit 4 - Renewal Rate Development**

**State Retirees**

	<b>Early Retirees</b>			<b>Medicare Retirees</b>		
	<b>Total</b>	<b>NJ PLUS</b>	<b>Traditional</b>	<b>Total</b>	<b>NJ PLUS</b>	<b>Traditional</b>
<b>Average Medical Subscribers</b>						
CY2005	8,419	4,622	3,797	18,735	4,314	14,421
CY2006	8,644	4,999	3,645	19,239	4,708	14,531
CY2007	9,070	5,411	3,659	19,870	5,093	14,777
<b>Incurred Medical claims</b>						
CY2005	\$ 88,000,000	\$ 40,600,000	\$ 47,400,000	\$ 39,500,000	\$ 10,900,000	\$ 28,600,000
CY2006	\$ 99,700,000	\$ 49,200,000	\$ 50,500,000	\$ 45,300,000	\$ 13,300,000	\$ 32,000,000
CY2007	\$ 113,200,000	\$ 57,000,000	\$ 56,200,000	\$ 51,500,000	\$ 15,400,000	\$ 36,100,000
<b>Incurred Prescription Drug Claims</b>						
CY2005	\$ 26,000,000	\$ 14,300,000	\$ 11,700,000	\$ 70,700,000	\$ 17,800,000	\$ 52,900,000
CY2006	\$ 28,600,000	\$ 16,600,000	\$ 12,000,000	\$ 61,000,000	\$ 16,600,000	\$ 44,400,000
CY2007	\$ 33,800,000	\$ 20,200,000	\$ 13,600,000	\$ 71,700,000	\$ 20,400,000	\$ 51,300,000
<b>Administrative Fees</b>						
CY2005	\$ 3,400,000	\$ 1,600,000	\$ 1,800,000	\$ 8,500,000	\$ 1,500,000	\$ 7,000,000
CY2006	\$ 3,600,000	\$ 1,800,000	\$ 1,800,000	\$ 9,000,000	\$ 1,700,000	\$ 7,300,000
CY2007	\$ 4,000,000	\$ 2,200,000	\$ 1,800,000	\$ 9,000,000	\$ 1,800,000	\$ 7,200,000
<b>Total Cost = Medical Claims + Prescription Drug Claims + Fees</b>						
CY2005	\$ 117,400,000	\$ 56,500,000	\$ 60,900,000	\$ 118,700,000	\$ 30,200,000	\$ 88,500,000
CY2006	\$ 131,900,000	\$ 67,600,000	\$ 64,300,000	\$ 115,300,000	\$ 31,600,000	\$ 83,700,000
CY2007	\$ 151,000,000	\$ 79,400,000	\$ 71,600,000	\$ 132,200,000	\$ 37,600,000	\$ 94,600,000
<b>Total Premium</b>						
CY2005	\$ 130,400,000	\$ 63,900,000	\$ 66,500,000	\$ 125,800,000	\$ 31,400,000	\$ 94,400,000
CY2006	\$ 149,500,000	\$ 78,500,000	\$ 71,000,000	\$ 126,200,000	\$ 34,800,000	\$ 91,400,000
CY2007	\$ 151,000,000	\$ 79,400,000	\$ 71,600,000	\$ 132,200,000	\$ 37,600,000	\$ 94,600,000
<b>Gain (Loss)</b>						
CY2005	\$ 13,000,000	\$ 7,400,000	\$ 5,600,000	\$ 7,100,000	\$ 1,200,000	\$ 5,900,000
CY2006	\$ 17,600,000	\$ 10,900,000	\$ 6,700,000	\$ 10,900,000	\$ 3,200,000	\$ 7,700,000
CY2007	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
<b>2007 Renewal Increase</b>	<b>-3.4%</b>	<b>-6.7%</b>	<b>0.2%</b>	<b>1.3%</b>	<b>-0.2%</b>	<b>1.9%</b>

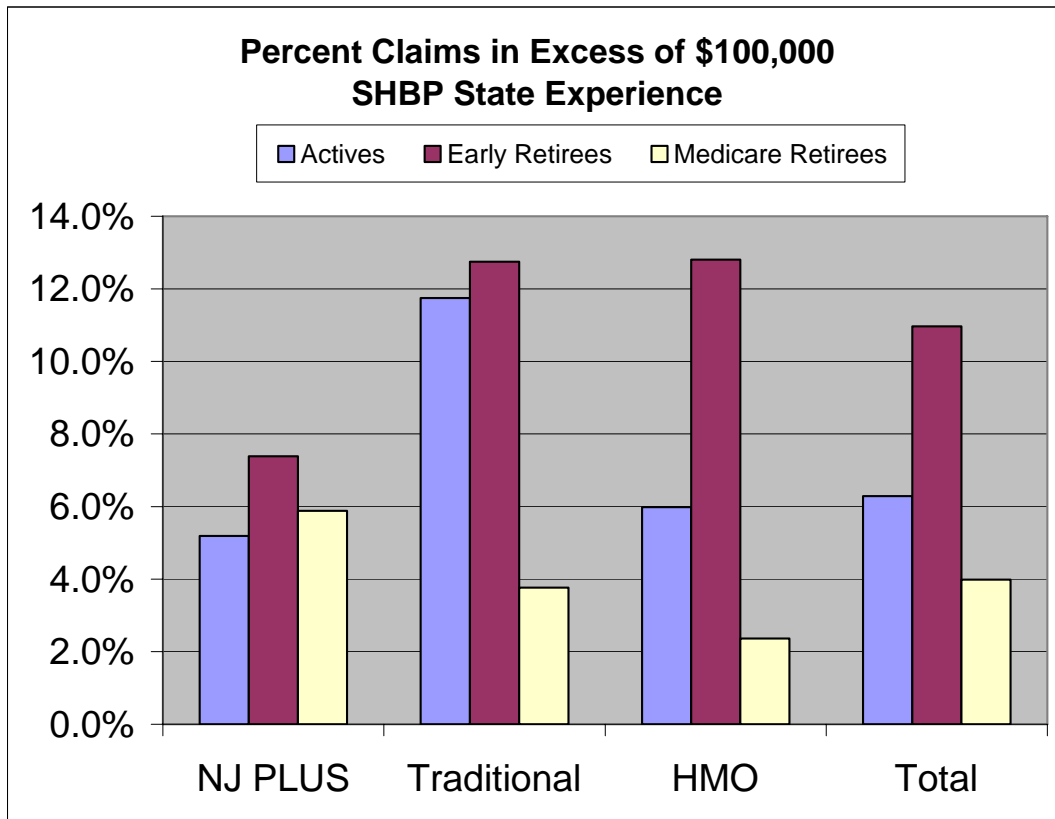
## SHBP Plan Year 2007 Renewal

### Exhibit 4 - Renewal Rate Development

#### State HMO Actives + Retirees

	Total	Aetna	CIGNA	Oxford	AmeriHealth	Health Net
<b>Average Medical Subscribers</b>						
CY2005	35,531	25,576	3,277	2,506	1,754	2,418
CY2006	35,771	25,660	3,419	2,515	1,793	2,384
CY2007	36,114	25,896	3,550	2,505	1,834	2,329
<b>Incurred Medical claims</b>						
CY2005	\$ 215,600,000	\$ 152,200,000	\$ 21,800,000	\$ 14,100,000	\$ 12,000,000	\$ 15,500,000
CY2006	\$ 242,500,000	\$ 169,400,000	\$ 25,800,000	\$ 16,700,000	\$ 13,700,000	\$ 16,900,000
CY2007	\$ 269,700,000	\$ 188,900,000	\$ 28,800,000	\$ 18,300,000	\$ 15,500,000	\$ 18,200,000
<b>Incurred Prescription Drug Claims</b>						
CY2005	\$ 18,800,000	\$ 13,600,000	\$ 2,100,000	\$ 800,000	\$ 1,000,000	\$ 1,300,000
CY2006	\$ 20,400,000	\$ 14,400,000	\$ 2,800,000	\$ 800,000	\$ 1,100,000	\$ 1,300,000
CY2007	\$ 25,300,000	\$ 17,600,000	\$ 4,000,000	\$ 1,000,000	\$ 1,300,000	\$ 1,400,000
<b>Administrative Fees</b>						
CY2005	\$ 22,500,000	\$ 16,600,000	\$ 2,000,000	\$ 1,500,000	\$ 900,000	\$ 1,500,000
CY2006	\$ 23,100,000	\$ 17,000,000	\$ 2,100,000	\$ 1,500,000	\$ 1,000,000	\$ 1,500,000
CY2007	\$ 23,300,000	\$ 17,100,000	\$ 2,200,000	\$ 1,500,000	\$ 1,000,000	\$ 1,500,000
<b>Total Cost = Medical Claims + Prescription Drug Claims + Fees</b>						
CY2005	\$ 256,900,000	\$ 182,400,000	\$ 25,900,000	\$ 16,400,000	\$ 13,900,000	\$ 18,300,000
CY2006	\$ 286,000,000	\$ 200,800,000	\$ 30,700,000	\$ 19,000,000	\$ 15,800,000	\$ 19,700,000
CY2007	\$ 318,300,000	\$ 223,600,000	\$ 35,000,000	\$ 20,800,000	\$ 17,800,000	\$ 21,100,000
<b>Total Premium</b>						
CY2005	\$ 245,900,000	\$ 169,600,000	\$ 25,700,000	\$ 18,000,000	\$ 13,200,000	\$ 19,400,000
CY2006	\$ 282,100,000	\$ 195,700,000	\$ 30,200,000	\$ 19,900,000	\$ 15,700,000	\$ 20,600,000
CY2007	\$ 318,300,000	\$ 223,600,000	\$ 35,000,000	\$ 20,800,000	\$ 17,800,000	\$ 21,100,000
<b>Gain (Loss)</b>						
CY2005	\$ (11,000,000)	\$ (12,800,000)	\$ (200,000)	\$ 1,600,000	\$ (700,000)	\$ 1,100,000
CY2006	\$ (3,900,000)	\$ (5,100,000)	\$ (500,000)	\$ 900,000	\$ (100,000)	\$ 900,000
CY2007	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
<b>2007 Renewal Increase</b>						
Actives and Early Retirees	12.1%	13.8%	11.5%	4.5%	11.1%	5.5%
Medicare Retirees	4.1%	4.6%	0.0%	15.0%	0.0%	0.0%

**SHBP Plan Year 2007 Renewal**  
**Exhibit 5 - Shock Claim Analysis**



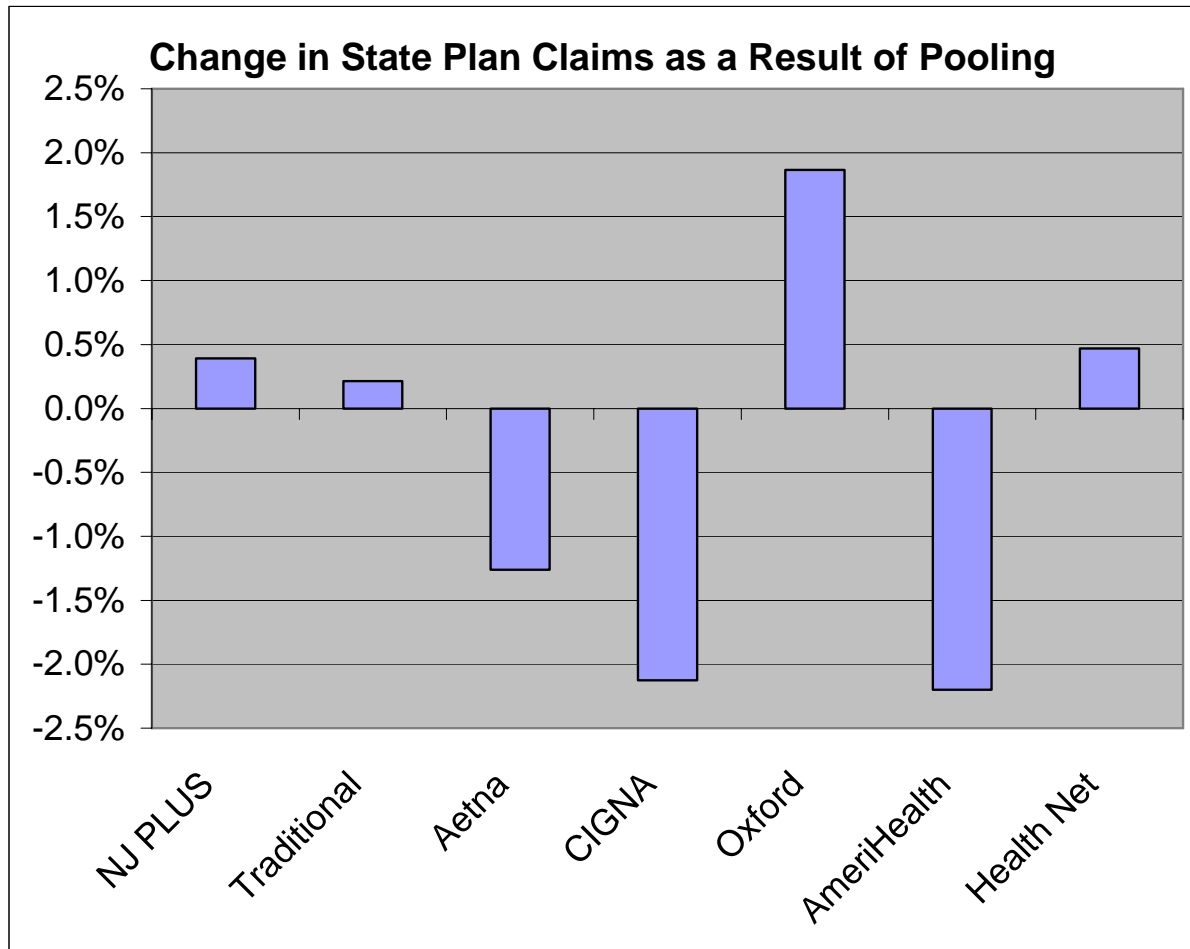
**Observations:**

- (1) Shock claim percentages vary based on employee status: Early Retirees have the highest percentage of shock claims and Medicare Retirees have the lowest.
- (2) For Actives, Traditional has the highest percentage of shock claims, and HMO shock claim levels are close to NJ PLUS.
- (3) For Early Retirees, NJ PLUS has the lowest level of shock claims, with HMO shock claim levels close to Traditional.
- (4) For Medicare Retirees, NJ PLUS has the highest level of shock claims.
- (5) Retiree enrollment in HMOs is small, making their experience less credible.

**Assumptions:**

- (1) Traditional Plan pooling charges will be double the NJ PLUS charges.
- (2) MO and NJ PLUS will have the same pooling charges.
- (3) Pooling charges will be different for each employee group: Actives, Early Retirees and Medicare Retirees.

**SHBP Plan Year 2007 Renewal**  
**Exhibit 5 - Shock Claim Analysis**



**Observations:**

- (1) Pooling has a minimal impact on total NJ PLUS, Traditional, and Health Net.
- (2) Pooling decreases Aetna costs about 1%, CIGNA and AmeriHealth costs about 2%, and increases Oxford costs about 2%.

**SHBP Plan Year 2007 Renewal**  
**Exhibit 6 - Plan Year 2007 Employee Monthly Premiums**

<b>State</b>	NJ PLUS	Traditional	Aetna	CIGNA	Oxford	AmeriHealth	Health Net	Rx Card
Single	\$346.63	\$698.15	\$373.09	\$426.16	\$357.23	\$411.48	\$396.52	\$111.09
Member+Spouse	\$755.55	\$1,494.25	\$823.99	\$929.60	\$785.82	\$915.55	\$863.76	\$253.90
Family	\$899.29	\$1,778.40	\$958.37	\$1,108.71	\$928.69	\$1,066.23	\$1,048.54	\$266.69
Parent+Child(ren)	\$521.48	\$1,031.20	\$550.93	\$639.72	\$535.86	\$607.46	\$608.28	\$148.26

## SHBP Plan Year 2007 Renewal

### Exhibit 6 - Plan Year 2007 Retiree Monthly Premiums

	NJ PLUS	Traditional	Aetna	CIGNA	Oxford	AmeriHealth	Health Net
<b>State - Total Premium</b>							
Single - 0 Medicare	\$637.76	\$791.62	\$523.47	\$573.33	\$441.45	\$601.64	\$532.09
Single - 1 Medicare	\$433.01	\$391.69	\$429.73	\$416.68	\$399.97	\$437.40	\$377.25
Mem+Spouse - 0 Medicare	\$1,390.10	\$1,694.39	\$1,132.33	\$1,231.37	\$971.09	\$1,338.69	\$1,159.12
Mem+Spouse - 1 Medicare	\$1,070.77	\$1,183.31	\$953.20	\$990.01	\$841.42	\$1,039.04	\$909.34
Mem+Spouse - 2 Medicare	\$865.93	\$783.42	\$859.50	\$833.40	\$799.96	\$874.83	\$754.53
Family - 0 Medicare	\$1,654.61	\$2,016.64	\$1,274.01	\$1,418.85	\$1,147.66	\$1,558.97	\$1,407.10
Family - 1 Medicare	\$1,335.28	\$1,505.56	\$1,094.88	\$1,177.49	\$1,017.99	\$1,259.32	\$1,157.32
Family - 2 Medicare	\$1,130.44	\$1,055.56	\$1,015.46	\$1,021.20	\$1,029.78	\$1,109.39	\$984.60
Parent+Ch - 0 Medicare	\$959.47	\$1,169.33	\$717.52	\$803.66	\$662.16	\$888.16	\$816.31
Parent+Ch - 1 Medicare	\$754.72	\$753.97	\$623.78	\$664.56	\$620.68	\$688.27	\$661.47

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**SHBP Plan Year 2007 Renewal**  
**State Plan**  
**Exhibit 7 – Projection Assumptions**

***Benefit Design Changes***

Medical Plans: For Retirees, NJ PLUS and HMO office visit copays will increase from \$5 to \$10, effective 1/1/2007.

Retiree Prescription Drug Card Plan: The copays will increase on 1/1/2007 from \$8/\$16/\$33 Retail and \$8/\$25/\$41 Mail Order to \$8/\$17/\$34 Retail and \$8/\$25/\$42 Mail Order. In addition, the Rx maximum out-of-pocket limit will be increased on 1/1/2007 from \$1,000 to \$1,082.

***Vendor Changes***

We are assuming that there will be no changes in any of the SHBP vendors between Plan Years 2006 and 2007. Further, we anticipate any changes in HMO service areas will have minimal impact on plan costs. All HMOs will be self-insured during Plan Year 2007.

***Member Contributions***

Active Plans: There will be no change to the current requirements: 0% contribution for NJ PLUS, 5% contribution for HMOs, and 25% contribution for the Traditional Plan.

Retiree Plans: There will be no change to current requirements which include most retirees at the \$0 contribution level, but also include retirees who contribute up to 100% of their cost based on the regulations that apply to their group and retirement date.

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### ***Incurred Basis***

Plan Year 2007 projected premiums will be designed to cover projected incurred costs for claims and expenses. They will not be adjusted to reflect the fact that many components may have significant lags in their payment date. For example, claim run-out can continue for more than two years, although 90% of claims are paid within 5 months of the incurral date.

### ***Margin***

Projected State Plan premiums will include NO margin, since this is a self-insured plan and any shortfall in premium is paid by the State and any gain reverts to the State.

### ***Administrative Expenses***

Plan Year 2007 premiums will include projected costs for the following administrative expenses:

- ASO fees for each vendor,
- SHBP overhead expenses, and
- 2% administrative load on rates for Adult Children.

### ***Claim Costs***

Plan Year 2007 costs will include projected charges/credits for the following claim expenses:

- Medical and prescription drug claims,
- Capitation charges, and
- Prescription Drug rebates.

### ***Enrollment Projections***

Based on historical growth patterns, Aon's enrollment projections for Plan Year 2007 assume that Active State Employee enrollment will grow 1.2%, with NJ PLUS' share of enrollment increasing 1.3%, and the Traditional and HMO plans' share of enrollment decreasing.

Aon's Retiree enrollment projections for Plan Year 2007 assume that State Retiree enrollment will grow 5%, with the Traditional Plan losing 1.8% of its share of enrollment to NJ PLUS and the HMOs.

### ***Health Status Change***

The average health status of employees who decide to change benefit options is usually different from those who decide to keep their current elections:

- Subscribers who move to a plan with lower employee contributions tend to be healthier than the subscribers who stay with their current plan.
- Subscribers who leave an HMO plan for NJ PLUS may be motivated by the lower contributions (for State Employees), but they may also be leaving because they anticipate more medical services in the coming year and want more flexibility in their provider selection.

Active Plans: Based on the Plan Year 2005 experience, we will assume that the Traditional Plan cost base will increase an additional 3.5% per year as a result of members moving from the Traditional Plan to NJ PLUS and the HMOs. For employees moving from HMOs to NJ PLUS, we will

assume average health status, since some migrants will be moving for lower employee contributions, but others will be moving because they want more flexibility in their provider choices.

Retiree Plans: We are assuming no change to average health status since total enrollment is growing and since most retirees do not have to contribute for their coverage.

### ***Large Claims***

Given the size of the State and Local Employer Active Employee and Retiree offerings, we expect that each of these groups is large enough to cover the cost of all their claims. However, some of the rating categories within each of these groups can be impacted by the variation in large claims from one year to the next. For this reason, we are pooling the cost of claims over \$100,000 over all the benefit offerings.

### ***Trend Rates***

Trend assumptions were developed by comparing the SHBP historical trend with industry norms and with vendor recommendations. Trend assumptions for the Plan Year 2007 renewal are 9.5% for NJ PLUS, 11% for the Traditional Plan, 11% for HMOs, 11.0% for the Prescription Drug Card plan, and 12.0% for Retiree Prescription Drugs.

Trend assumptions do not include any adjustment for the impact of Avian flu or any other pandemic on Plan Year 2007 costs.

### ***Medicare Part D***

We are assuming that the Medicare Part D subsidy will be worth \$641 per Medicare-Eligible member in Plan Year 2006, and \$688 per Medicare-Eligible member in Plan Year 2007.

### ***Coverage of Adult Children under age 30***

Expected Costs for Adult Children are based on the following assumptions:

- Health Status and Selection will be 25% higher than the COBRA experience, due to the fact that Adult Children can drop coverage and then re-enroll (which is not permitted under COBRA). Based on Plan Year 2005, COBRA loss ratios are 57% higher than Active Employees. However, COBRA average age is 34 versus an average age of 41 for Active Employees. After adjusting for the age differential, COBRA experience is 93% worse than Active Employees. Thus Adult children experience is expected to be 142% worse than Active Employees ( $1.93 \times 1.25$ ).
- Adult Children enrollment will be split 50% male and 50% female.
- Maternity costs in Adult Children will be 75% of the normal maternity costs, since married children are not covered nor are the costs of the newborn child.
- Average age of Adult Children will be 28, which reduces costs 48% relative to the average age of the active population.
- Expected claim costs for Adult Children will be the excess morbidity adjusted for the lower average age =  $2.42 \times (1 - 0.48) = 1.25$ .

- Administrative Costs will be higher due to maintaining records for individual enrollees and tracking changes in enrollment, so we recommend that the Adult Child rate include the same 2% administrative load as in the COBRA rates. Thus, final Adult Child rates should be 27% higher than the SHBP rates for single coverage. However, as requested by the Division of Pensions and Benefits, a 10% load will be used for this coverage group until actual experience can be determined.

### ***Data Assumptions***

Claims: We are using data files from all vendors except AmeriHealth to develop incurred claim costs. Horizon, Aetna, CIGNA, and Health Net renewals are based on claims paid through March 31, 2006. Oxford renewals are based on claims paid through January 31, 2006. For AmeriHealth, summarized paid claims were adjusted to estimate incurred claim costs.

Enrollment: We used quarterly SHBP census files to develop splits by coverage tier, by ZIP code, and by age/sex groups for our experience analysis. We used billing counts for our exposure units in our renewal calculations.